

**Wexford County**  
**Department of Public Works,**  
**Haring Township Water System**  
**(a fund of the County of Wexford, Michigan)**

---

**Financial Report**  
**December 31, 2003**

# **Wexford County Department of Public Works, Haring Township Water System**

---

## **Contents**

<b>Report Letter</b>	<b>I</b>
<b>Financial Statements</b>	
Statement of Net Assets	2
Statement of Revenue, Expenses, and Changes in Net Assets - Budget and Actual	3
Statement of Cash Flows	4
Notes to Financial Statements	5-10



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report

To the Board of Public Works  
Wexford County  
Cadillac, Michigan

We have audited the basic financial statements of Wexford County, Michigan as of December 31, 2003 and for the year then ended and have issued our report thereon dated May 6, 2004. Those basic financial statements are the responsibility of the management of Wexford County, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Wexford County, Michigan taken as a whole. The accompanying financial statements of the Wexford County Department of Public Works, Haring Township Water System are presented for the purpose of additional analysis and are not a required part of Wexford County, Michigan's basic financial statements. The accompanying financial statements of the Wexford County Department of Public Works, Haring Township Water System have been subjected to the auditing procedures applied in the audit of the County's basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the County's basic financial statements taken as a whole.

As discussed in Note 9, as of January 1, 2003, the County implemented the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

*Plante & Moran, PLLC*

May 6, 2004

A member of



A worldwide association of independent accounting firms

# **Wexford County Department of Public Works, Haring Township Water System**

## **Statement of Net Assets December 31, 2003**

### **Assets**

#### Current assets:

Cash and cash equivalents (Note 2)	\$ 85,097
Investments (Note 2)	500,000
Accounts receivable	<u>22,686</u>

Total current assets 607,783

Noncurrent assets - Capital assets - Net (Note 3) 1,767,837

Total assets 2,375,620

### **Liabilities**

#### Current assets:

Accounts payable	7,240
Accrued and other liabilities	10,908
Current portion of long-term debt (Note 7)	<u>15,000</u>

Total current liabilities 33,148

Noncurrent liabilities - Bond payable - Net of current portion (Note 7) 695,000

Total liabilities 728,148

### **Net Assets**

Invested in capital assets - Net of related debt	1,057,837
Unrestricted	<u>589,635</u>

Total net assets \$ 1,647,472

# Wexford County Department of Public Works, Haring Township Water System

## Statement of Revenue, Expenses, and Changes in Net Assets Budget and Actual Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenue</b>			
Charges for services	\$ 200,750	\$ 198,661	\$ (2,089)
Fire hydrant rental	39,480	-	(39,480)
Other	3,720	34,601	30,881
Total operating revenue	243,950	233,262	(10,688)
<b>Operating Expenses</b>			
Salaries and wages	60,180	60,180	-
Employee fringe benefits	27,815	27,816	(1)
Office supplies	1,223	1,223	-
Operating supplies	5,123	5,123	-
Insurance	3,330	3,330	-
Legal and professional fees	15,315	15,315	-
Computer billings	844	844	-
Engineering services	(67)	(67)	-
Chlorination	3,849	3,850	(1)
Metered water usage	409	409	-
Bac-T testing	2,557	2,557	-
Utilities	17,068	17,069	(1)
Travel expenses	249	249	-
Publications	647	647	-
Dues and membership	178	178	-
Repairs and maintenance	5,897	56,701	(50,804)
Capital asset activity:			
Capital outlay	11,786	-	11,786
Depreciation expense	50,019	46,872	3,147
Miscellaneous expense	45,539	6,518	39,021
Total operating expenses	251,961	248,814	3,147
<b>Operating Loss</b>	(8,011)	(15,552)	(7,541)
<b>Nonoperating Income (Loss)</b>			
Interest earnings	14,000	11,814	(2,186)
Interest expense	-	(44,850)	(44,850)
Total nonoperating income (loss)	14,000	(33,036)	(47,036)
<b>Operating Transfer In (Out)</b>	(38,646)	21,204	59,850
<b>Change in Net Assets</b>	(32,657)	(27,384)	5,273
<b>Net Assets - January 1, 2003</b>	1,674,856	1,674,856	-
<b>Net Assets - December 31, 2003</b>	<u>\$ 1,642,199</u>	<u>\$ 1,647,472</u>	<u>\$ 5,273</u>

# Wexford County Department of Public Works, Haring Township Water System

## Statement of Cash Flows Year Ended December 31, 2003

### Cash Flows from Operating Activities

Receipts from customers	\$ 232,789
Payments to suppliers	(110,748)
Payments to employees	<u>(86,713)</u>

Net cash provided by operating activities 35,328

### Cash Flows from Capital and Related Financing Activities -

Principal and interest from capital debt	(59,850)
--	----------

### Cash Flows from Noncapital and Related Financing Activities -

Payments from other funds	21,204
---------------------------	--------

### Cash Flows from Investing Activities

Interest received on investments	11,814
Proceeds from the sale and maturities of investment securities	(1,829,669)
Purchase of investment securities	<u>1,741,869</u>

Net cash used in investing activities (75,986)

Net Decrease in Cash (79,304)

Cash - January 1, 2003 164,401

Cash - December 31, 2003 \$ 85,097

### Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (15,552)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	(473)
Depreciation	46,872
Accounts payable	3,197
Accrued and other liabilities	<u>1,284</u>

Net cash provided by operating activities \$ 35,328

# **Wexford County Department of Public Works, Haring Township Water System**

---

**Notes to Financial Statements  
December 31, 2003**

## **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Wexford County Department of Public Works, Haring Township Water System (the "System") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The System is operated by Wexford County, Michigan (the "County") and is included in the County's basic financial statements as an Enterprise Fund. The following is a summary of the significant accounting policies:

### **Reporting Entity**

The System operates and maintains the water system of Haring Township (the "Township"). The Township requested that the Wexford County Department of Public Works construct a water tower and install new water mains and distribution lines to service existing and new service areas. The improvements would connect the Township's two water systems into one complete system. In order to accomplish these improvements, it was necessary for the complete system to be owned, operated, and maintained by one entity, and Act No. 185 of the Public Acts of Michigan of 1957 (an act establishing the County Department of Public Works) requires that the Wexford County Department of Public Works own the complete system to provide the financing of the improvements.

To accomplish these improvements, on September 11, 1995, the Township conveyed to the County all of its rights, title, and interest in the existing system and future improvements. Upon repayment in full of any indebtedness for the improvements and any indebtedness on any other portion of the complete system, and upon repayment to the County of any amounts owed it, the County shall, upon the Township's written request, convey the complete system back to the Township.

As of December 31, 1996, all improvements to the system had been completed and the two separate water systems had been physically connected. This new combined system is known as the Haring Township Water System.

**Basis of Accounting** - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards used after November 30, 1989.

# **Wexford County Department of Public Works, Haring Township Water System**

---

**Notes to Financial Statements  
December 31, 2003**

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Cash Equivalents** - For the purpose of the statement of cash flows, the Proprietary Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

**Investments** - Investments are recorded at fair value, based on quoted market prices.

**Receivables** - All trade receivables are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited properties, which assures their eventual collection.

**Inventories** - Inventories held by the System are not considered material and are not included in these financial statements.

**Capital Assets** - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. The assets of the System consist of equipment items used to run the System. Depreciation on such capital assets is charged as an expense against the operations of the System on a straight-line basis.

**Long-term Obligations** - The Department of Public Works reports long-term debt as a liability in its Proprietary Fund.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

## **Note 2 - Deposits and Investments**

The deposits of the System consist entirely of cash. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$85,097, which was fully covered by federal depository insurance. The insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the System, if any, is not determinable.



# **Wexford County Department of Public Works, Haring Township Water System**

**Notes to Financial Statements  
December 31, 2003**

## **Note 2 - Deposits and Investments (Continued)**

The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all of the bank deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Investments** - Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are related as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board allows the County Treasurer to invest in all investments authorized by Public Act 20 of 1943, as amended.

The County of Wexford, Michigan's deposits and investments policies are in accordance with statutory authority.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 2003. Risk Category 1 investments are held by the counterparty's trust department (or agent) in the County's name and include those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the County or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the County's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the County's name

The System's investments consist of certificates of deposit totaling \$500,000.

# Wexford County Department of Public Works, Haring Township Water System

## Notes to Financial Statements December 31, 2003

### Note 3 - Capital Assets

The System's capital assets are composed of the following:

	Balance January 1, 2003	Additions	Balance December 31, 2003	Useful Life - Years
Capital assets being depreciated:				
Investment in water distribution system	\$ 2,265,010	\$ -	\$ 2,265,010	50
Equipment and furniture	32,241	-	32,241	5-10
Total capital assets being depreciated	2,297,251	-	2,297,251	
Less accumulated depreciation	(482,542)	(46,872)	(529,414)	
Net capital assets being depreciated	<u>\$ 1,814,709</u>	<u>\$ (46,872)</u>	<u>\$ 1,767,837</u>	

Depreciation expense is calculated on the straight-line method over the estimated useful lives as indicated above.

### Note 4 - Postemployment Benefits

The County provides health care benefits to all full-time employees upon retirement. The cost associated with this benefit is charged to the County's self-insurance fund when incurred. Currently, two retirees are eligible. The County includes pre-Medicare retirees and their dependents in its insured health care plan. The County charges the retirees a monthly fee to participate. During the year ended December 31, 2003, the County collected approximately \$3,400 from retirees.

### Note 5 - Defined Benefit Pension Plan

The County's employees who operate the System are covered by a defined benefit pension plan. Complete information about the plan can be found in the County's basic financial statements. Annual pension expense allocated to the System amounted to approximately \$3,600 for the year ended December 31, 2003.

### Note 6 - Risk Management

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The System participates in the County's risk management program. The County has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability.

# Wexford County Department of Public Works, Haring Township Water System

## Notes to Financial Statements December 31, 2003

### Note 6 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management Authority that the Michigan Municipal Risk Management Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Detailed information concerning estimates of liability for claims is provided in the County's basic financial statements.

### Note 7 - Long-term Debt

**Outstanding Debt** - The following is a summary of the System's long-term debt and transactions for the year ended December 31, 2003:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1996 Water Supply System							
General Obligation Bonds							
Amount of issue - \$800,000	5.60%-	\$15,000 -					
Maturing through 2026	7.40%	\$55,000	\$ 725,000	\$ -	\$ (15,000)	\$ 710,000	\$ 15,000

# Wexford County Department of Public Works, Haring Township Water System

## Notes to Financial Statements December 31, 2003

### Note 7 - Long-term Debt (Continued)

**Debt Service Requirements** - The annual requirements to service all debt outstanding as of December 31, 2003, including both principal and interest, are as follows:

Years Ending December 31	Principal	Interest	Total
2004	\$ 15,000	\$ 43,740	\$ 58,740
2005	15,000	42,630	57,630
2006	15,000	41,520	56,520
2007	20,000	40,410	60,410
2008	20,000	39,185	59,185
2009-2013	90,000	145,086	235,086
2014-2018	110,000	122,226	232,226
2019-2023	225,000	126,272	351,272
2024-2026	200,000	32,166	232,166
Total principal and interest requirements	<u>\$710,000</u>	<u>\$633,235</u>	<u>\$1,343,235</u>

### Note 8 - Budget

The State's Budget Act does not require a formal budget to be adopted for Enterprise Funds. However, an annual budget is adopted and is included in these financial statements for management control purposes.

### Note 9 - Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The County has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). The County has elected to implement the general provisions of the statement. There were no significant changes to the System's financial statements.